

Technical Consultant Siemens PTI's

DP&L

Market Assessment Report for FP- SOS 2022 RFP

Prepared for:

Delaware Public Service Commission
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1. Executive Summary

Pursuant to Order No. 6598 and the July 18, 2005, Phase 2 settlement filed with the Public Service Commission of Delaware ("Commission" or "DE PSC") in Docket No. 04-391, Siemens PTI was engaged as the third party Technical Consultant to assist the Commission in the Commission's monitoring and review of a Request for Proposal ("RFP") process for the purchase of Full Requirements Wholesale Service for Fixed Price Standard Offer Service ("FP-SOS") customers in Delaware. In its capacity as the third-party Technical Consultant, Siemens PTI will monitor the RFP process, which reflects the improved wholesale bidding process set forth in Docket No.04-391 to solicit proposals from suppliers interested in providing FP-SOS to Delmarva Power & Light Company ("Delmarva" or "DP&L"). The RFP is for full requirements wholesale supply service to meet the needs of Delmarva's SOS retail load obligations in Delaware. Delmarva has conducted a multi-tranche (multi-round) bidding process to solicit proposals from suppliers interested in providing FP-SOS to Delmarva for its Delaware customer service classifications since 2006.

1.1 Current Market Conditions

Siemens PTI has independently conducted a thorough assessment of current market conditions. The current natural gas and power market prices have risen significantly compared to the previous years, including those pre-pandemic. Because of the tight supply-demand dynamic further discussed in the report coupled with low storage levels, the natural gas prices have risen causing the power prices to rise in tandem given the tight coupling between the two commodity markets. The current forward prices for both power and natural gas are backwarddated with the prompt 12-months at elevated prices relative to the next 12 months and so on. This does indicate that the markets expect the current elevated prices and higher volatility to subside and make way for more stable and lower pricing past the summer of 2022.

The capacity prices, as indicated by the most recent base residual auction held by PJM, have also decreased relative to the previous years and given the rise in power prices, the capacity cost contribution to the overall expected auction price has also decreased.

1.2 Results

Delmarva conducted two auction sessions for the 2022 RFP. Tranche 1 was held on November 29, 2021 and Tranche 2 was held on January 24, 2022. The results of the Delmarva RFP was reflective of market conditions. Participations in both auctions was satisfactory and fostered a competitive bidding process. The RFP process ran smoothly from start to finish. The auctions were carried out as planned on Enel X's platform which performed as expected. The final winning bids were consistent with market trends.

The average winning bid prices for the 2021 and 2022 RFP are showing in Exhibit 1 (Average of prices weighted by number of blocks each year), along with the actual and percent change in prices. Year over year, weighted average auction prices increased dramatically across all customer classes. This is consistent

with the rise in natural gas prices which have driven wholesale electric market prices up despite lower capacity prices.

Exhibit 1: Results

Customer Type	2021	2022	Change	% Change
Residential and Small Commercial & Industrial FP-SOS (RES)	\$52.91	\$63.95	\$11.04	20.9%
Medium General Service-Secondary FP-SOS (MGS)	\$48.58	\$62.41	\$13.83	28.5%
Large General Service-Secondary FP-SOS (LGS)	\$45.54	\$63.98	\$18.44	28.8%
General Service-Primary FP-SOS (GS-P)	\$44.06	\$61.50	\$20.44	46.4%

Exhibit 2 lists the effect of price increases on customer bills. The customer bill impacts of winning wholesale energy prices are estimated by PHI.

Exhibit 2: Estimated Average Monthly Customer Bill and Impact provided by PHI

Class	As of 1/1/2022 ¹	As of 6/1/2022 ²	\$ Change per Bill	% Change per Bill
Res (845kWh) ³	\$114.17	\$114.94.81	\$0.77	0.67%
SGS-ND	\$107 to \$377	\$109 to \$384	\$1.94 to \$7.77	1.82% to 2.08%
MGS	\$383 to \$6,954	\$431 to \$8,026	\$47.56 to \$1,071.75	12.41% to 15.41%
LGS	\$6,703 to \$82,659	\$7,907 to \$97,021	\$1,205 to \$14,362	17.32% to 18.55%
GS-P	\$758 to \$99,261	\$779 to \$127,567	\$21 to \$28,306	2.77% to 28.52%

¹ Distribution rates in docket 20-0149, effective 10/6/2020; Transmission rates as of 9/1/2021; and DSIC % as of 1/1/2022. Estimated bill impacts provided by PHI

² These comparisons are estimates and are likely to change as the annual updates to transmission, procurement cost, renewable energy portfolio standards, Qualified Fuel Cell Provider Projects-Renewable Capable Power Production and reasonable allowance for retail margin are not yet included for the supply year beginning 6/1/2022.

³ For Residential and Small Commercial, due to the use of a "Capacity Proxy Price" for the 2022 / 2023 PJM Capacity Auction and then the auction price coming in lower, we have included a credit of \$6.68 / MWH in each block price from the 2021 Supplier auction.

1.3 Summary Conclusions

Siemens PTI monitored the 2022 RFP process from start to finish. Siemens PTI was engaged in announcements, bidder communications, bid system performance, verification of bids, and notification of winners.

As previously reported, Siemens PTI concludes that each auction was run fairly, competitively, and professionally. The Enel X platform performed as expected and the resulting bids were consistent with expectations based on market conditions. Siemens PTI has no improvements to recommend at this time.

2. Overall Solicitation Process

The full requirements wholesale supply standard offer service (FP-SOS) includes energy, capacity, ancillary services and losses, but excludes renewable energy obligations and network integration transmission service. A supplier of full requirements service will have an obligation stated as a specific percentage of Delmarva retail load for the Residential and Small Commercial & Industrial (RSCI) Service Type, and as such, full requirements service encompasses any changes in customers' demand for any reason.

In the FP-SOS 2022 RFP cycle, Delmarva is soliciting competitive bids for full requirements wholesale supply service using the Enel X reverse auction process. The solicitation is for supply agreements for one year and two-year terms. The load to be bid upon in the RFP is divided into four service types. An approximation of that portion of the load (stated in megawatts) associated with customers currently receiving supply service for each service type and for whom wholesale supply will be solicited is indicated in Exhibit 3.

Exhibit 3: Total MWs Procured

Portion of Load Procured in 2022 RFP Cycle (MWs)		
Service Type	Tranche 1	Tranche 2
Res (845kWh)	216	216.4
SGS-ND	68	38.4
MGS	7	
LGS	20	
Total		565.8 MW

The selection of proposals by Delmarva in this solicitation will be conducted through a multi-tranche process, which will allow for up to three tranches to fulfill Delmarva's requests for its various Service Types.

The process is designed, however, such that Delmarva requests are fully met in no more than two tranches. Any remaining tranche(s) will be reserved for use only if Delmarva requests go unfulfilled in the prior tranche(s). The load associated with each tranche will be further divided among the contract terms. The specific contracts for which Delmarva is soliciting in this RFP are indicated in Exhibit 4.

Exhibit 4: Terms of Contracts by Service Type

Service Type	Term Description
Res (845kWh)	24-Month Term, June 1, 2022 - May 31, 2024
SGS-ND	12-Month Term, June 1, 2022 - May 31, 2023
MGS	12-Month Term, June 1, 2022 - May 31, 2023
LGS	12-Month Term, June 1, 2022 - May 31, 2023

The load within each tranche and for each contract term is further divided into bid blocks. Each bid block represents a certain and specific percentage of the associated load. The number of blocks in each tranche for each contract term is a Delmarva target. If the amount of conforming bids in any tranche is unable to meet that tranche's targets, then the unfilled portion of that tranche will be included in the next tranche, and the targets in the next tranche will be revised accordingly. If in the last tranche in which bids are being solicited, any multi-year contract targets are not met, then conforming single-year bids will fill the deficiencies. If in the last tranche there are not sufficient conforming single-year bids to fill a multi-year contract target deficiency, or if the single-year contract target has not been met, then the remaining reserve tranche(s) will be conducted to solicit for any deficiencies.

Within each tranche and for each FP-SOS bid block offered by Service Type and Term, there is a single auction conducted on the Enel X web-based auction platform. The full requirements price offers shall be in terms of \$/MWh. Bids will only be accepted through the Enel X web-based auction platform. Exhibit 5 summarizes block quantities and sizes available for each auction.

Exhibit 5: Approximate Tranche 2 Block Summary by Rate Class

Service Type	Tranche 1	Tranche 2	Block Size (MW)	Total MW
RSCI	4	4	54	216.4
MGS	2	1	38	38.4
LGS	1		7	7
GS-P	1		20	20
Total	8	5		565.8

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Bidder participation is an integral part of determining the competitiveness of power supply RFPs. To ensure participation, Delmarva announced its RFP by issuing press releases to media channels and contracting known suppliers directly. As a result, twelve companies expressed interest in the RFP and eight became eligible. Exhibit 6 displays historical participation up to and including the 2022 auction.

Exhibit 6: Participation

Count	2016	2017	2018	2019	2020	2021	2022
Expression of Interest (EOI)	11	12	12	10	12	13	12
Eligible Bidders	8	8	7	7	9	9	8
Actual	8	6	6	6	9	9	8

Exhibit 7 lists the number of bidders and the number of bids of each block in the 2022 procurement cycle.

Exhibit 7: Bid Activity

Tranche	Block	Bidders	Bids
1	RSCI-Block 1	7	27
	RSCI-Block 2	7	13
	RSCI-Block 3	7	12
	RSCI-Block 4	7	11
	MGS-Block1	7	16
	MGS-Block2	7	14
	LGS	5	12
	GS-P	5	10
2	RSCI-Block 1	7	20
	RSCI-Block 2	7	12
	RSCI-Block 3	7	19
	RSCI-Block 4	7	9
	MGS	7	16

Exhibit 8 lists the organizations which successfully won any of the blocks in the Tranche 1 or Tranche 2 auctions. Eight companies won blocks in the 2022 RFP SOS as compared to four last year and six in 2020.

Exhibit 8: Winning Bidders

Winning Bidder
Axpo US LLC
Hartree Partners, LP
Vitol Inc.
TransAlta Energy Marketing (U.S.) Inc.
Exelon Generation Company, LLC
AEP Energy Partners, Inc.
DTE Energy Trading
NextEra Energy Marketing, LLC.

Finally, Exhibit 9 breaks down the allocation of MWs served for the 2022 delivery period. Siemens PTI can conclude based on the overall results there is sufficient supplier diversity with eight companies serving load, with four of them serving RSCI load.

Exhibit 9: MW Allocation as a Percentage

Supplier	RSCI	MGS	LGS	GS-P
AEP Energy Partners, Inc.	-	-	-	100.0%
Axpo US LLC	25.0%	-	-	-
DTE Energy Trading, Inc.	12.5%	-	-	-
Exelon Generation Company, LLC	-	-	100.0%	-
Hartree Partners, LP	50.0%	-	-	-
NextEra Energy Marketing, LLC	-	33.3%	-	-
TransAlta Energy Marketing (U.S.) Inc.	12.5%	33.3%	-	-
Vitol Inc.	-	33.3%	-	-
Total	100.0%	100.0%	100.0%	100.0%

3. Prices

3.1 FP-SOS Price Breakdown

The full requirements cost of each service type's power supply can be broken into the following components, as outlined below:

- **Energy** – the cost of the energy (MWhs) that is demanded by the customers. Energy pricing includes premiums built in for Load Following nature of Full Requirement pricing.
- **Transmission & Distribution Energy Loss** – the percentage historical loss associated with transmitting electricity from power plants to electrical substations located near demand centers and along the distribution feeders to the end customers.
- **Capacity** – the cost of designating capacity from specified generating units to meet PJM's requirement for capacity in an amount that is generally equal to the peak expected load plus a required reserve margin, which minimizes risk of generation scarcity.
- **Ancillary Services** – the cost of ancillary services required by PJM market rules for all LSEs. These ancillary services are procured by PJM from generators in a centralized market and are designed to ensure grid stability. The costs related to these ancillary services are then charged to all load serving entities on a pro-rata basis.
- **Risk Premium** – in addition to the cost of energy, there are certain risk factors embedded in offering full requirements power service.
- **Margin** – a competitive profit margin that suppliers might include in their bid.

3.2 Comparison of 2022 Auction Prices with Recent History

A comparison of FP-SOS 2022 RFP prices with recent history is provided in Exhibit 10. The current forward energy markets are at elevated levels compared to those from the last three years. This has resulted in the current bid prices to be significantly higher than last year.

Exhibit 10: Weighted Average Wining Prices

Customer Type	2020	2021	2022	Change	% Change
Residential and Small Commercial & Industrial FP-SOS (RES)	\$54.55	\$52.91	\$63.95	\$11.04	20.9%
Medium General Service-Secondary FP-SOS (MGS)	\$52.97	\$48.58	\$62.41	\$13.83	28.5%
Large General Service-Secondary FP-SOS (LGS)	\$50.55	\$45.54	\$63.98	\$18.44	28.8%
General Service-Primary FP-SOS (GS-P)	\$52.37	\$44.06	\$61.50	\$20.44	46.4%

Exhibit 10 shows past weighted average price for the last 3 auction years for each service load type including the prices for 2022 auction. Current forward market prices for the delivery periods are much higher than 2020 – 2021 levels and this is reflected in the 2022 winning prices are much higher than 2021 winning bid price for all service types.

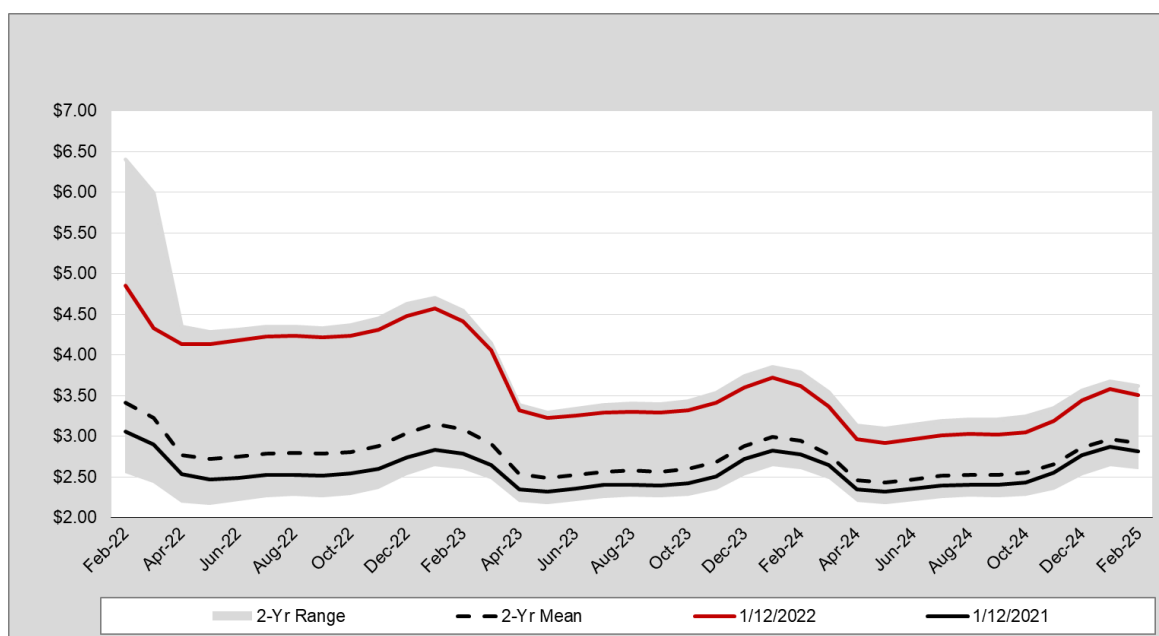
4. Current Energy Markets Assessment

In this section we provide commentary on PJMs Power and Capacity market conditions compared to recent years. We continue to observe the influence that wholesale natural gas markets have on the power markets. The primary reason for this observation is that natural gas fired generation continues to be on the margin determining the Locational Marginal Prices (LMPs) for power in the PJM market. Hence, we start with a forward market outlook for natural gas, followed by the forward market conditions for power, and finally by the PJM capacity market outlook.

4.1 Forward Fuel Market Outlook

Following the extreme weather in the last winter (particularly in February 2021), the natural gas prices in the US have continued to rise and this rise has been coupled with an elevated level of price volatility as can be seen in Exhibit 11.

Exhibit 11: NYMEX Prices for the Henry Hub Natural Gas Contract



As can be seen above, the forward expectation of natural gas prices last year was below the current 2 year average and since last January, this expectation has since gone up two thirds (or more in certain months) for the prompt 12-month period.

There are several reasons for this, including:

- Rebounding demand for natural gas in the industrial sector over last summer, robust demand in the residential and commercial sector in the new year, and very robust growth seen in pipeline exports to Mexico, and liquified natural gas (LNG) exports to the European and Asian markets.
- In 2021, there was significant gas-to-coal switching due to high gas prices. However, this has led to a large decrease in coal stockpiles when paired with low coal production growth has led to a slowdown in further gas-to-coal switching. This has boosted the natural gas demand somewhat and is expected to play a continued role moving forward.
- Production growth in 2021 has not kept pace with the demand growth for a variety of reasons. The primary reason being the fiscal discipline shown by the large US producers, who have used the current higher revenues to pay down debt and return cash to shareholders without making huge investment in increasing production. The global supply chain issues have also somewhat had a chilling effect on increasing the production quickly.
- However, this trend of slow growth in production has started to reverse as robust oil prices have continued to support associated gas production lately. This trend is being further supported by reduced natural gas flaring.
- As a result of this supply-demand dynamic, while the storage levels of natural gas across the US had fallen below the 5-year average in the fall of 2021, the mild start to the winter in December, has led the current storage outlook to recover somewhat. The storage levels are estimated to improve and exceed the 5-year average later this winter.
- These combined market conditions have caused the natural gas prices to rise back up to higher pre-December levels, especially for period beyond the current winter season.

The national natural gas outlook does impact the pricing seen on NYMEX, however, natural gas prices vary regionally within the US with local market and fundamental factors also influencing local prices. Due to proximity to the DPL zone, Siemens assessed trends in Transco Zone 6 non-NY natural gas hub over the last year. Siemens provides the natural gas forward prices as of January 2022 as well as a year ago in Exhibit 12.

Like the Henry Hub prices, the current forward prices for Transco Zone 6 non-NY are higher compared to last year. All the drivers described above that affect Henry Hub pricing are also true for Transco Zone 6 non-NY. Some of the national production issues are less pronounced in this region given its proximity to the prolific Marcellus shale producing region.

Exhibit 12: Natural Gas Forward Prices – Jan 2022 vs Jan 2021 prices

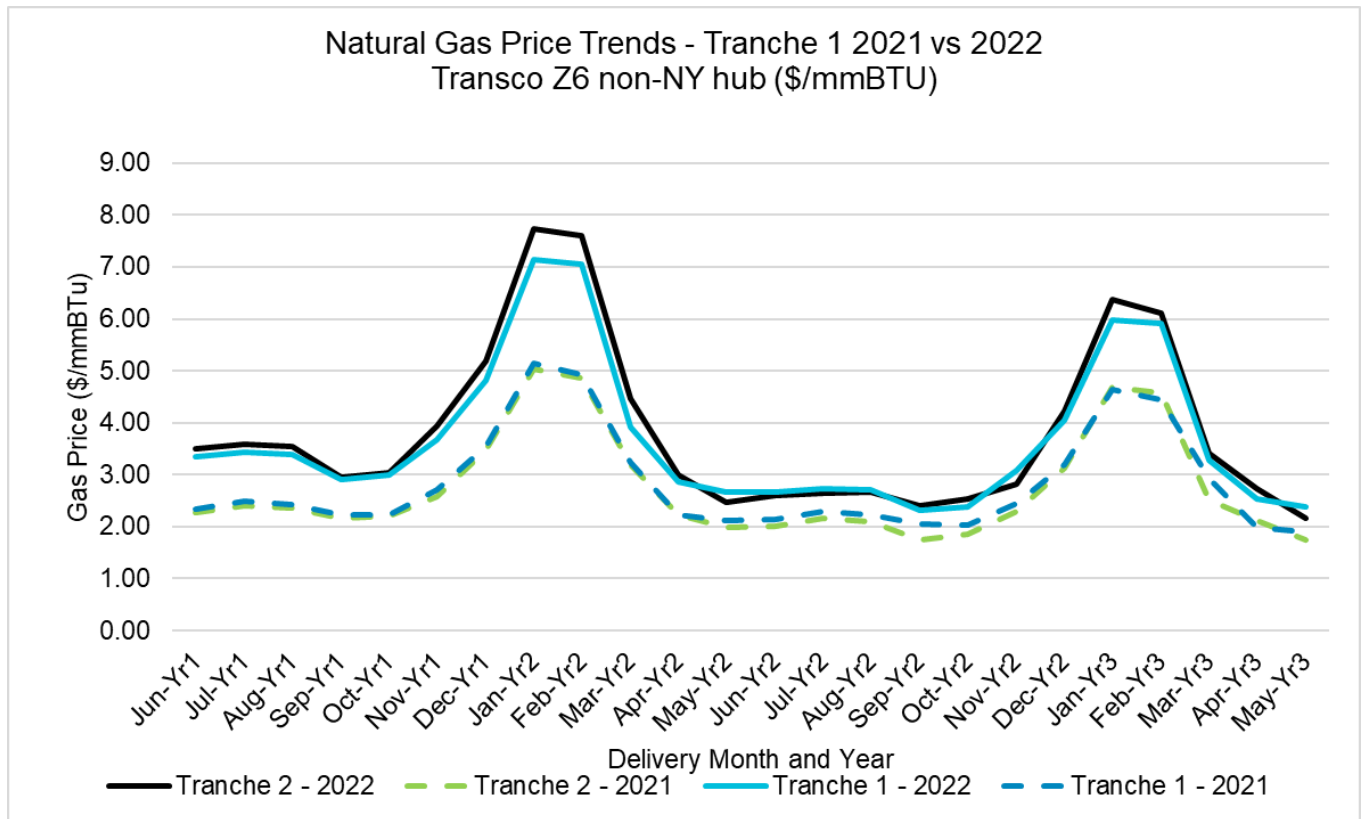
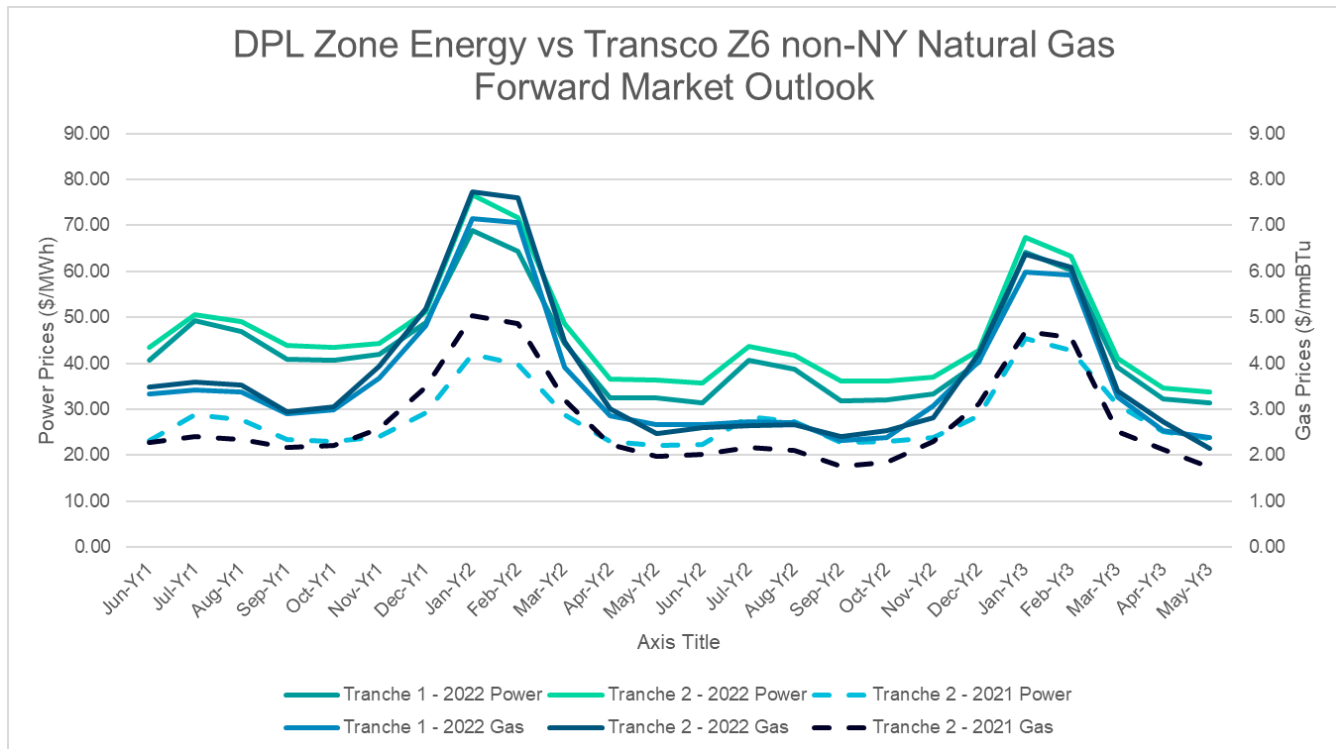


Exhibit 13 illustrates current and last year's Natural Gas and Power forward prices as observed in January of 2022 and 2021. It is evident from the chart below that the DPL zone forward prices for power are positively correlated with the Transco Zone 6 Non-NY prices for the corresponding months.

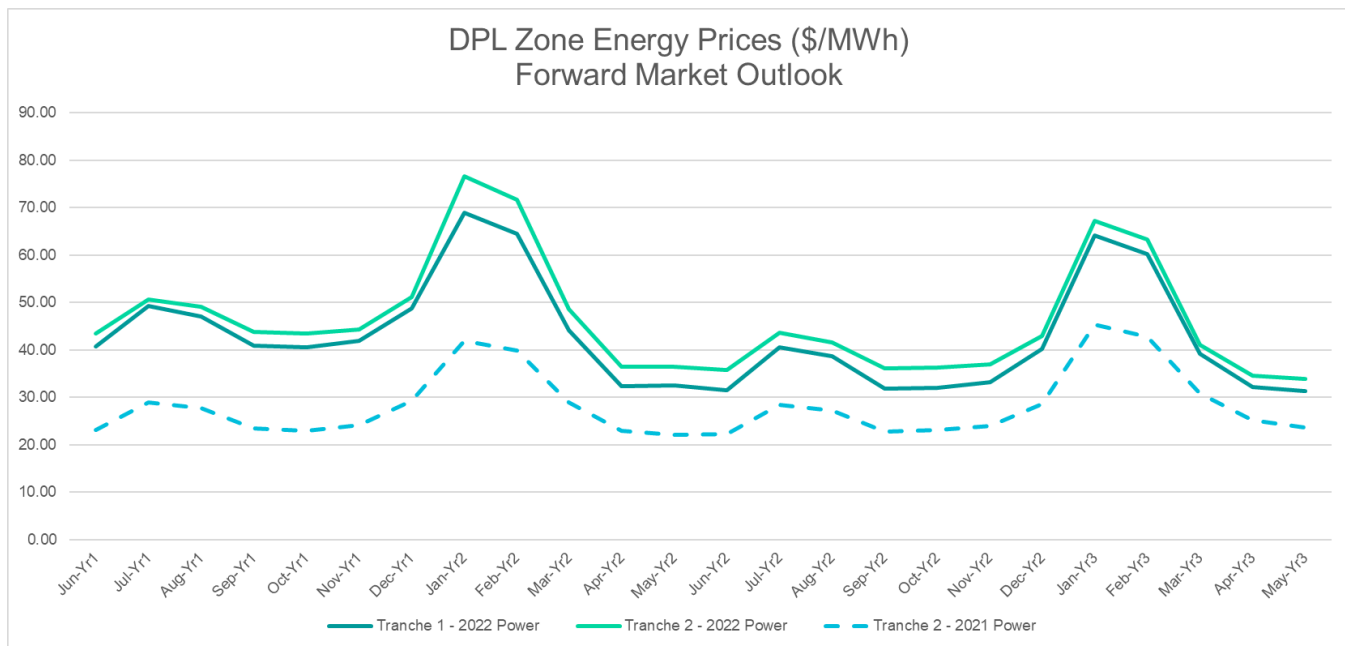
Exhibit 13: Natural Gas and Power Prices in PJM – Jan 2022 vs Jan 2021 Forward prices



4.2 Forward Power Market Outlook

As a direct result of the current higher natural gas prices, the current PJM power market outlook is higher compared to the previous three years. The forward curves for gas and power are observed to be backwardated, i.e., high for the prompt 12 months and lowering in the long term. This indicates the markets are currently expecting that the current elevated prices due to the drivers we discussed earlier will stabilize and return to long-run averages which are lower than the current price levels.

Coal generation in PJM has been steadily declining over the last decade, however, given the recent run-up in natural gas prices it did make a brief comeback. PJM did see some gas-to-coal switching in late summer and fall timeframes. However, the supply chain issues have also affected coal deliveries with the prices of coal also going up. As a result, the power prices in PJM have not found any reprieve given the issue plaguing the fossil fuel markets.

Exhibit 14: PJM DPL Energy Prices (Jan 2022 vs Jan 2021 forwards)

4.3 Current Capacity Market Outlook

PJM's next base residual capacity auction (2023/24), which was scheduled to be held on January 25, 2022, was further delayed when the Federal Energy Regulatory Commission (FERC) reversed parts of an earlier decision and ordered the PJM Interconnection to revise its reserve market rules recognizing that PJM will have to revise various capacity auction parameters as a result.⁴ In this order, FERC gave PJM 30 days to set a new schedule for upcoming capacity auctions, which have faced multiple delays in recent years.

Capacity prices in the last base residual auction event (\$97.75/MW-day for 2022/23 period) were significantly lower than the previous auction price (\$164.89/MW-day for 2021/22 period). Due the delay in PJM's next base residual capacity auction (2023/24), a commission approved proxy price of \$118.12/MW-day is used.

Exhibit 15: Capacity Prices (\$/MW-day) for Tranche 2 Solicitations

Delivery Period	Jan-20 Auction	Jan-21 Auction	Jan-22 Auction
June 2020 - May 2021	\$175.11	-	-
June 2021 - May 2022	\$162.79	\$164.89	-
June 2022 - May 2023	-	\$151.70*	\$97.75
June 2023 - May 2024	-	-	\$118.12*

* Highlight indicates Commission approved Proxy Price was used as capacity price for the specific delivery period

⁴ Per Docket Nos. EL19-58-006, ER19-1486-003

Capacity costs are a key component of the overall auction prices. The contribution of capacity component to the opening bid price varies from 14% to 18% for different load types in the 2022 Tranche 2 auction. The RSCI customer class has the peakiest hourly load profile with the worst load-factor causing the capacity price contribution to be the highest compared to the other less peaky load profiles.

Last year, the contribution of capacity prices was much higher, 29% to 34% in 2021 Tranche 1 auction. The currently low-capacity prices, current hourly load trends, and the rise in the energy prices are the major contributors to this change in capacity price contribution towards the expected bid price ranges.

Exhibit 16: Capacity Price Contribution to Actual / Projected Prices (\$/MWh)

	Tranche 1 2021			Tranche 1 2022			Tranche 2 2022		
	Capacity Price	Exp. Total Prices	Capacity Price as % of Exp. Total	Capacity Price	Exp. Total Prices	Capacity Price as % of Exp. Total	Capacity Price	Exp. Total Prices	Capacity Price as % of Exp. Total
RSCI	\$19.44	\$57.76	34%	\$12.85	\$70.25	18%	\$12.94	\$73.00	18%
MGS	\$15.81	\$54.00	29%	\$9.05	\$57.14	16%	\$10.10	\$70.50	14%
LGS	\$8.00	\$42.10	19%	\$7.26	\$63.40	11%	-	-	-
GSP	\$12.32	\$45.05	27%	\$7.21	\$62.76	11%	-	-	-

5. Process Analysis

Siemens PTI was assigned the task of monitoring Delmarva's RFP process through specific administrative requirements. The following is an assessment of each area:

5.1 Notification of the RFP to the Market

To ensure adequate participation, Delmarva announces its RFP by issuing a press release to media channels and directly to eighteen companies. The releases included basic auction information to prospective bidders, instructions for acquiring more information, and registration information available on Delmarva's RFP website. As a result, twelve companies submitted expressions of interest in this RFP, eight ultimately became eligible and all eight entities bid on blocks, though not all entities bid on all blocks. Siemens PTI concluded that this task was performed to expectations.

5.2 Information Dispersal

Delmarva provided and published all materials for expressing interest and registering for the auction on its RFP website. Once approved, bidders were able to acquire all key administrative, technical, and schedule information necessary to participate. Siemens PTI finds that information was disseminated appropriately and that the website, as a foundation for communication, worked according to plan. Delmarva also held a webinar on the entire RFP process. The webinar included a review of changes since the previous RFP and instructions for all aspects of RFP participation.

5.3 Determination of Applicant Eligibility

Interested bidders were required to submit a Credit Application, Confidentiality Agreement, PJM certification, and FERC certification to Delmarva by the deadline. It was ultimately determined that eight of the twelve interested parties were eligible to bid in the auctions. Siemens PTI finds that this eligibility process was performed to standards.

5.4 Bid Ranking

On auction day, each block is made available to bid at 10 AM. The first RSCI block auction ended at 10:30 am, and subsequent block auctions ended every ten minutes after that. Each of the RSCI blocks was offered first, followed in order by MGS, LGS, and finally the GS-P block (LGS and GS-P are only applicable to Tranche 1).

Due to COVID, Siemens PTI representatives, Enel X representatives, and DE PSC Staff monitored the auctions remotely. All viewed the auction through the Enel X platform with full viewing access. After all the block auctions ended, Siemens PTI reviewed each bid with Delmarva and confirmed the winning bid, the winning organization, and the final price.

5.5 The Awarding of Transactions

After the completion of each tranche auction, and review between Delmarva and Siemens PTI, Delmarva contacted each bidder. Winning bidders were notified and were provided with contracts reflecting their organization, bid size, and winning bid price.

5.6 Full Requirements Service Agreement Signing

Delmarva negotiated a complete Full Requirements Service Agreements with each winning bidder and provided copies of each executed agreement to Siemens PTI for review. Siemens PTI presented the auction results to the DE PSC and the next subsequent meeting where these agreements were approved.

5.7 Process Conclusions

Siemens PTI has concluded that all processes, including both the Tranche 1 and Tranche 2 auctions, were run professionally and the resulting bids were consistent with expectations based on market conditions. Siemens PTI finds no areas in need of attention at this time.